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# ECONOMICS OF PROHIBITION

BY L. AMES BROWN

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THE study of the prohibition movement in its historical and political phases in the United States having been discussed in other issues of the REVIEW, it is now advisable that we concentrate for a space upon the economic questions which are involved in the possible success of the Hobson propaganda for national prohibition.

It is well to emphasize at this stage, too, that the present study relates the prohibition movement as it emerges in our politics today, not to theoretical prohibition, and most certainly not to *temperance*, but solely to the propaganda directed by ex-Congressman Hobson and the Anti-Saloon League for the adoption of a definite programme. The faulty side of the Hobson propaganda is made readily apparent in a study of its economic effects. Other prohibition movements have not sought to establish the proposed reform at the cost of confiscation of a large body of invested capital. The Hobson movement, however, makes no provision for compensating those who have invested money in the liquor industry. On the other hand, the moral legitimists responsible for its leadership have repeatedly gone on record as opposing compensation in any form.

The Hobson resolution which was voted on at the last session of Congress, and is to be pressed anew at this session, makes no mention of any step to be taken to meet the responsibilities of the Government to an industry whose profits it has shared for more than fifty years. The prohibition "rider" in the District of Columbia Appropriation Bill, which was defeated only by a narrow margin in the Senate a year ago, made no provision for compensating the men in the national capital whose business it proposed to destroy, and whose invested capital it proposed seriously to impair. Recently, in response to an inquiry, I was informed by the editor-in-chief of the official publications of the Anti-

Saloon League, the chief instrumentality through which the political power of the Hobson movement is exerted, that that organization is and always has been unalterably opposed to compensation.

It is quite apparent, therefore, that the Hobson movement is a movement without a programme for the solution of one of the outstanding economic problems to be created when its success is achieved. So one tangible fact which we must face in deliberating upon the effect of national prohibition of the Hobson brand is the partial destruction of invested capital in breweries and distilleries amounting to \$771,000,000, together with the serious depreciation of capital, estimated at \$421,000,000, which is invested in wholesale and retail distributing establishments.

Senator John Sharp Williams, of Mississippi, a recent prohibition convert, who made the best speech during the debate on the prohibition amendment to the District of Columbia bill in the Senate a year ago, said in that debate:

I think now and then that men in their desire to do good by law are dishonest. Some time ago one of the States of this Union—overnight you might say—passed a prohibition law forbidding the sale and manufacture of malt, or vinous, or distilled liquors within its boundary. Men in that State had hundreds of thousands of dollars invested in breweries and distilleries. Men in that State had just finished paying the State for their annual license, which was permission to sell for the next succeeding twelve months, and that State, which shall be nameless here, did not compensate the men for putting their distilleries and breweries on the junk pile; it did not even return to the men from whom they had collected the year's license the day before the law was passed the money which they had paid them.

"The highest form of morality cannot afford to steal, and it ought not to steal; it ought not to take money under false pretenses. If it does not take it under false pretense, if it takes it under a legitimate pretense, if by its own action it does away with the consideration for which the money was given, then it ought to restore it.

Senator Williams' utterance creates a wholesome atmosphere in which to begin a discussion of the merits of a proposal for compensation. It is well worth while to consider at the start that a moral question is involved in the Government's duty in the matter, and to note also the instances in which the American people have revealed a temper opposite to that which characterizes the prohibition leaders.

Perhaps the most admirable step of the sort was that taken by Sacramento, California, several years ago, in placing in operation a plan for the purchase and closing of objectionable saloons. This plan, which is prescribed by a city ordinance adopted in 1912, is outlined in the following letter I have received from G. C. Simmons, Commissioner of Public Health and Safety of Sacramento:

Ten per cent of the moneys put in the City Treasury as license fees, by the saloons, is set aside as a Saloon Reduction Fund. This money is used solely for the purchase of saloons and we have before us at present four saloons offered for sale to the city. Under this plan the city appoints one man as appraiser, the saloon keeper appoints a man as appraiser, and these two appoint a third to act with them as appraisers. A report is made to the City Commission as to the value of the license and the fixtures and the report, when adopted, carries with it the right to purchase the saloon. Our fund for that purpose amounts at present to \$10,527, which will probably be sufficient to purchase the four saloons offered. Our population in this city is above 75,000 people, and the number of saloons in the last three years has been reduced by purchases and otherwise to nearly forty.

The same principle was applied by a temperance organization at Middleburg, Pennsylvania, in subscribing a fund of \$5,000 with which to purchase the only licensed saloon in that town.

The Virginia Legislature, while making no provision for compensating the owners of capital invested in the liquor industry preliminary to the operation of the State-wide prohibition law adopted in 1914, did recognize in some measure the validity of the principle involved, as well as the extent to which public opinion in the State was aroused against the outright confiscation of the saloon properties. This was done by postponing the operation of the State-wide law until November, 1916. By this postponement opportunity was rendered not only for the licensed liquor dealers to conduct their business through the period for which they had already been licensed, but to shift their capital, in so far as might be practicable in a short space of time, from investments in liquor-producing establishments and saloons. Practically all of the prohibition States have postponed the operation of their laws for a period of several months after enactment. This partial recognition of the obligation not to destroy the value of legitimate property outright has been characterized as hypocrisy by some of the most care-

ful students of compensation in the country. The view has been advanced that the attempt to escape responsibility by such a subterfuge as postponement is worse than a flat refusal to recognize that any such responsibility exists.

Not long ago in a conversation with one of the prohibition leaders in Congress I ventured the suggestion that his propaganda might be strengthened by a more careful consideration of the compensation problem. His reply was typical of many prohibition arguments on that subject. He insisted that no compensation had been provided for the Southern slave owners whose property rights in their slaves were destroyed by President Lincoln's Emancipation Proclamation. Is not the suggestion tenable, however, that the genius of the American people was best represented not in the Emancipation Proclamation itself, but in the following joint resolution adopted April 10, 1862, by the Congress of the United States, at the suggestion of President Lincoln?—

Be it Resolved by the Senate and the House of Representatives of the United States in Congress assembled, that the United States ought to co-operate with any State which may adopt the gradual abolition of slavery, giving such State pecuniary aid, to be used by such State in its discretion, to compensate for the inconveniences, public and private, produced by such a change of system.

In Europe, at any rate, it has been an axiom that compensation be made to persons who suffer directly by a change of legislation. Mr. D. Clarence Gibboney, in a thoughtful address to the Pennsylvania Legislature in 1915, when a local option measure was under consideration, discussed illuminatingly the compensation plans adopted in the nations of the Old World which have sought, through prohibition or other measures, to suppress the liquor traffic. Attention was called by him to the fact that one of the most important provisions of the Consolidation Act of 1910, embodying improved liquor legislation for Great Britain, assured to every saloon owner who had conformed to the laws, compensation for the difference between the value of his property with a license and its value without a license. This act also provided that "in the case of the holder of the license, regard shall be had not only to his liquor interest in the premises or trade fixtures, but also to his conduct and to the length of time during which he has been holder of the license; and the holder of a license, if a

tenant (notwithstanding any agreement to the contrary), shall in no case receive a less amount than he would be entitled to as tenant from year to year of the licensed premises."

Mr. Gibboney describes as a "square deal plan" the provision for compensation made by the General Assembly of the Swiss Confederacy when the abolition of the manufacture and sale of absinthe was decreed. This provision extended not only to owners and tenants of land on which absinthe was grown for distillation, but to the owners and leaseholders of absinthe factories, the paid hands on the farms where the product was grown, and the employees of the factories in which it was distilled. Russia in the present century established an imperial liquor monopoly by purchasing vodka distilleries and saloons in the Empire and prohibiting the manufacture and sale of liquor by private concerns. Thus, no problem of confiscation was involved in the issuance of the Imperial *ukase* by which the Czar established prohibition in 1915. The French Deputies in February, 1915, passed a measure appropriating \$2,960,000 as reimbursement for taxes paid by the liquor dealers on absinthe in their possession and for the purchase of their stocks of absinthe, as a companion measure to the bill limiting the number of saloons and abolishing the sale of absinthe.

A basic consideration in the debate as to the obligation of the Government to consider the confiscation of property involved in its assumption of the power to prohibit the sale and manufacture of liquor, is the long dependence of the Government upon the liquor traffic for an important part of its revenues.

The first internal revenue act of the United States, which was approved March 3, 1791, levied duties on all spirits distilled thereafter. The tax was unpopular, however, for the States regarded it as an encroachment upon their prerogatives, and practically all duties were removed December, 1817. From 1818 to the outbreak of the Civil War internal traffic in intoxicants was wholly unrestricted and untaxed by the Federal Government. During this period a customs duty was levied on imported liquors, sometimes a small and sometimes a heavy one, but always sufficient to protect the internal liquor traffic from serious foreign competition. Since the enactment of the War Revenue Tax in 1862 and the early subsequent levy on liquors, the Government has

derived an increasingly great volume of revenue from the liquor industry. Aggregate collections in 1863 were \$3,229,000. They jumped to \$28,000,000 the next year. In the fiscal year 1914 the internal taxes produced \$226,000,000 and customs taxes \$19,500,000. The records of the Internal Revenue Bureau show that since 1865 the Federal Government has collected more than \$5,000,000,000 revenue from the liquor business.

From the Government's long recognition of the legitimate existence of the liquor industry, it seems arguable that, if the people decide to abolish the liquor traffic as a means of promoting their general welfare, they should in fairness turn back to the industry a small proportion of the funds it has contributed to the support of the Government. In other words, the cost of establishing an institution for the improvement of the general condition of the people should be borne share and share alike, and not be saddled entirely upon the shoulders of a set of men who have invested their capital in a legitimate field of industrial activity.

It should be pointed out, however, that the problem of compensation, if a solution is decided upon, will turn out to be by no means a simple one. The fullest measure of fairness to the liquor industry does not require that the Government "buy it out," a procedure advocated by Senator Owen of Oklahoma, a prohibitionist, as the easiest means of settling the controversy. The rapid development of the industrial alcohol industry in the country since the outbreak of the European war has shown that distilleries may be used quite profitably in the production of other things than intoxicants. It is very probably true, also, that a considerable part of the machinery now used in breweries as well as distilleries could be used in other industries. Certainly the buildings themselves would still have some value. It appears, therefore, that the effect of national prohibition would be a serious impairment of the capital invested in the liquor industry and not, as many representatives of the industry have charged, an out and out violation of the Constitutional protection of a citizen against having his property confiscated without compensation. A Congressional commission would be able to determine the extent of this depreciation. The compensation of owners of retail establishments would involve a more extensive Federal inquiry, but the experience of the British Government has shown that it is practicable to

determine the extent of the damage done to a saloon keeper by the revocation of his license, and there is no reason to believe that the American Government would find the task more difficult.

Two economic problems of exaggerated importance which grow out of the establishment of the Hobson reform are the removal of a market for a very considerable volume of agricultural products and the deprivation of a number of more or less specialized workmen of their means of livelihood. Representative Goeke, who has made an original investigation of the economic effects of prohibition, furnished information on the first point in the following excerpt from a speech in the House of Representatives a year ago:

In the course of 1913, corn and other farm products of the value of \$113,884,568 were used in the manufacture of liquors. This amount does not represent the value of the products so used in the Chicago and other markets, but the actual sum received by the growers, based upon the carefully compiled reports of the Department of Agriculture published from time to time. The full significance of this amount can be best appreciated when it is stated that it exceeded the total combined crop values of the census year of Vermont, Maryland, and West Virginia; of Massachusetts, Rhode Island, New Jersey and Florida; of Louisiana, with its great cotton and sugar interests; of New York, New Hampshire and Utah; or of Maine, Connecticut, Delaware, Nevada, Arizona, New Mexico and the two Dakotas.

The amount is made up of barley to the value of \$55,236,641; corn, \$30,924,335; hops, \$11,155,215; rice, \$7,288,786; rye, \$4,604,476; wheat, \$869,938; oats, \$3,382; molasses, \$2,056,626; fruit, \$751,835; and secondary products of agriculture not included under the head of corn, \$626,119. It is computed that in raising these products the farmers paid for labor a total of \$13,485,460, a sum sufficient to employ 74,919 persons for six months, at an average wage of \$30 per month.

One does not need to question these figures in order to differ with the opinion of many prohibition opponents that the withdrawal of this agricultural market would fall as a calamity upon farmers in certain sections. Indeed, the amount referred to is such a small portion of the annual value of our agricultural crop as to make it an unimportant factor. The European market for American agricultural products has been so greatly expanded recently, and it bids fair to remain open for such a long time to come—even after the war ends—that the farmer need have little



fear of any calamitous effect of prohibition in so far as the selling price of his crops is concerned. The indifference of the farmers to the economic loss involved for them in the establishment of prohibition is indicated by the fact that in nearly every rural section where local or State prohibition has been voted upon the farmer has supported the reform.

The labor problem connected with the withdrawal of the liquor industry from the American labor market also is unimportant compared with the other labor problems with which we have to deal. The United States Census figures for 1913 show that the liquor manufacturers employed 62,920 wage earners, to whom \$45,252,000 was paid in wages. The prohibition advocates have not failed to harp upon the fact that the number of wage earners employed and the volume of wages paid by the liquor industry is exceedingly small when the value of its output is taken into consideration as compared with similar items for other important industries. It is pointed out in addition that by no means all of the 62,920 wage earners employed by the liquor industry are specialized laborers who might not expect to secure profitable employment in other industries. A recent investigator pointed out, in a magazine article, that the census returns show that there are fewer than 15,000 brewers, distillers, malsters and rectifiers in the United States. This figure is offered as comprehending all of those who would be deprived of employment in the event of prohibition. The other employees, the writer points out, are of a class of labor which is suitable for engagement in other industries, while the 15,000 who would have to find a new special line of employment compose a number only a little larger than the 10,000 artisans of various kinds in this country who are compelled annually to change one occupation for another. The writer very properly refuses to regard the shifting of so small a number of specialists as a serious labor problem. Perhaps the worst sufferers from the effect of prohibition upon employment would be the bartenders, of whom there are 100,000 in the United States, according to the census for 1910.

There remains the subject of taxation, which must be dealt with by the Government as a companion measure to prohibition. The present dependence of the Government upon the liquor industry for an important part of its revenue certainly justifies the demand, in behalf of all those whose at-

titude toward prohibition is unbiased, that the propaganda embody some adequate scheme of taxation to offset the depletion of the National Treasury which prohibition would bring about. The internal revenue from liquor in the fiscal year 1914, the year before the war came along to upset our taxation system, was \$226,000,000, and the customs revenue from this source was \$19,500,000, a total of \$245,500,000. The importance of the ultimate effect of national prohibition upon our taxation system can best be realized when it is pointed out that the last annual report of the Secretary of the Treasury shows that the total annual income of the Government from taxation was approximately \$700,000,000. Thus it appears that the Government relies upon the liquor business for about 35 per cent. of its taxation revenue. It is evident, then, that the establishment of nation-wide prohibition would compel a complete reorganization of our taxation system. The many perplexities of the present Administration and the Democratic leaders of Congress in their efforts to devise new sources for \$112,000,000 of revenue, which the Secretary of the Treasury declares will suffice for the additional national defense expenditures, suggest but a mild picture of the woes that will fall upon the legislative branch of the Government with the advent of prohibition. The task of this Congress would be more arduous still if it were decided to reimburse the owners of liquor manufactories for the losses entailed by prohibition.

The State Governments would face a taxation problem of their own. The annual revenue of the States and smaller governmental units from liquor imports and taxes in 1914 was \$79,000,000. Recent experiences of a number of prohibition States in raising revenues to meet the sums lost through the abolition of liquor taxes, notably the cases of West Virginia and Tennessee, furnish excellent object lessons for the other States, particularly the larger ones such as New York, which would lose \$17,000,000 of annual revenue.

The difficulties heretofore outlined are put forward not as reasons entirely adequate for rejecting a proposal which holds out a definite promise that the nation shall be absolutely free of liquor consumption, but as practical questions which merit the consideration of all thoughtful citizens who now are seeking to reach a proper determination of the attitude they ought to take toward the Hobson movement.

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